United States Senate
Republican Policy Committee
Jon Kyl, Chairman
347 Russell Senate Office Building
Washington, DC 20510
202-224-2946
http://rpc.senate.gov

September 20, 2006

Dep't of Labor Report Shows America's Resilient Economy

Growing Jobs, Output, and Earnings

Key Data from Chapter 1 of Department of Labor Report: "America's Dynamic Workforce: 2006"

- Last month, the U.S. Department of Labor updated its publication, "America's Dynamic Workforce: 2006." This RPC paper consists of Chapter 1 of the DOL publication, "Growing Jobs, Output and Earnings."
- The American economy is strong and resilient. Labor market indicators describe an economy that is creating jobs, expanding output, and rewarding work with good compensation.
- Job market recovery began after the low point of August 2003 and has continued without interruption for 34 months through June 2006. (When adding in the most recent data from July and August 2006, the recovery has gone without interruption for 36 months.)
- Net growth in nonfarm payroll employment totaled 5.4 million from August 2003 through the first half of 2006. Job growth during 2005 was 2.0 million. In the first half of 2006, 865,000 net new jobs were created. (Factoring in the most recent data, the economy has created more than 5.7 million jobs since August 2003.)
- In 2005, on average, 7.6 million persons were unemployed, and by June 2006, the number had declined to less than 7.0 million. These levels represent a significant decline from the 9.2 million unemployed at the post-recession peak in 2003.
- The strength of the labor market is a reflection of the strong growth of real (after inflation adjustment) gross domestic product (GDP) in recent years. In 2005, real GDP reached nearly $12.5 trillion. Since 1980, real GDP has more than doubled.
- In 2005, the average level of real hourly compensation (includes both wages and the cost of benefits) in the nonfarm business sector was 7.0 percent higher than in 2000.
- Over the past five years, job growth was greater among relatively well compensated occupations: management, business and finance; professional and related; construction and extraction occupations; and repair, maintenance and installation occupations. Each of these four occupational groups paid above the average compensation of $26.06 per hour in 2005. Between 2001 and 2005, they accounted for 3.9 million net additional jobs.

Background

According to data from the Bureau of Labor Statistics (BLS), the U.S economy created 128,000 new jobs in August 2006, more than 1.7 million jobs over the past 12 months – and more than 5.7 million jobs since August 2003. Our economy has added jobs for 36 straight months. And yet, despite the data, liberals in Congress and the media choose to criticize. According to Minority Leader Harry Reid, "Our economy is not in good shape."[1] The *New York Times* notes that "workers perceive a long-term downward trend in their economic status."[2]

Secretary of Labor Elaine Chao offers this assessment, "The American economy is strong and growing. It is a good time for American workers: Job opportunities are increasing, unemployment is low, and compensation is rising. During the past five years, through recession, terrorism and natural disaster, the American economy has proven itself to be resilient."[3]

The U.S. Department of Labor (DOL) has compiled statistical information in a new publication, "America's Dynamic Workforce: 2006." The data in the publication reflect annual average data through 2005, the most recent year available. The publication also contains some monthly data as current as June 2006. The publication reflects the resiliency of the U.S. economy, and highlights its ability to overcome adversity and become "the envy of other major industrialized nations."[4]

This paper contains the contents of Chapter 1 of the DOL publication. The chapter focuses on the *facts* that the U.S. economy is creating jobs, expanding output, and that both components of employee compensation (wages and employer-paid benefits) were higher in terms of real purchasing power in 2005 than in 2000.

---

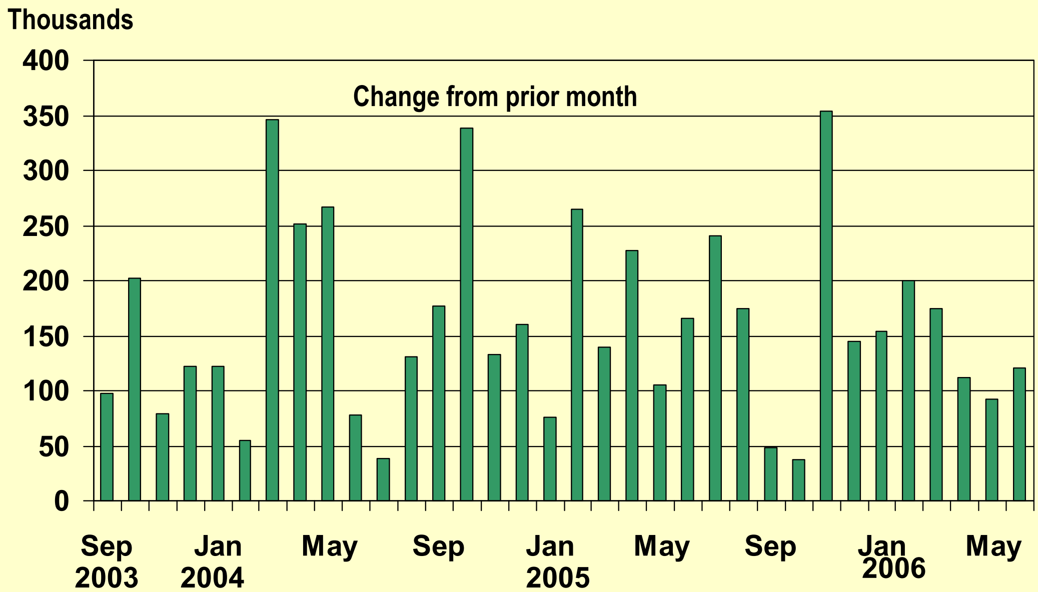
[1] Senator Harry Reid, *Congressional Record*, July 11, 2006, S7290.
[2] *The New York Times*, editorial, "The Big Disconnect," September 1, 2006.
[3] U.S. Department of Labor, "America's Dynamic Workforce: 2006," August 2006. [http://www.dol.gov/asp/media/reports/workforce2006]
[4] America's Dynamic Workforce: 2006.

1 GROWING JOBS, OUTPUT AND EARNINGS

The American labor market is strong and resilient. The labor market indicators describe an economy that is creating jobs, expanding output, and rewarding work with good compensation. Since jobs began recovering in 2003 from the effects of the last recession, the economy has tallied 34 consecutive months of job gains (through June 2006, the latest data available for this report). Employment has reached new record heights.

The unemployment rate has fallen significantly from its post-recession high of 6.3 percent and has ranged between 4.8 percent and 4.6 percent during the first half of 2006. Both components of compensation – wages and employer-paid benefits – were higher in terms of real purchasing power in 2005 than in 2000.

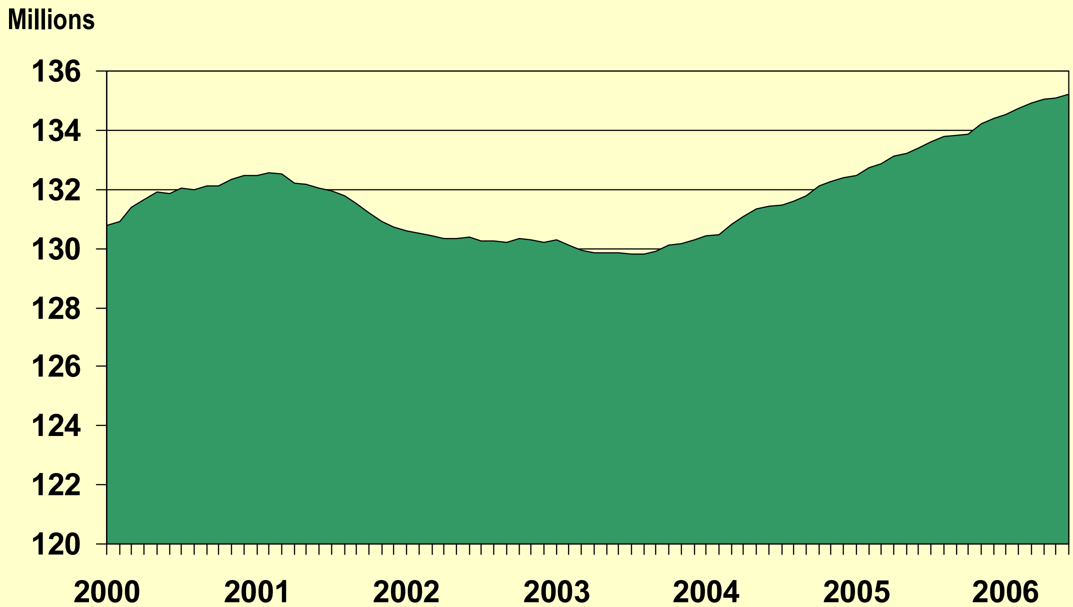
Figure 1-1. Payroll Jobs Have Increased for 34 Consecutive Months through June 2006



SOURCE: Bureau of Labor Statistics, Current Employment Statistics program.

- Net growth in nonfarm payroll employment totaled 5.4 million from August 2003 through the first half of 2006. Job growth during 2005 was 2.0 million. In the first half of 2006 a total of 865,000 net new jobs were created.
- Between August 2003 and June 2006, monthly job gains averaged 160,000. Monthly gains ranged from 37,000 in October 2005, following the Gulf Coast hurricanes to a high of 354,000 in November 2005, reflecting, in part, the post-hurricanes rebound.
- In 2005, nonfarm payroll employment averaged a record 133.5 million, over 1.6 million more than the previous record set in 2001. By June 2006, the jobs total reached 135.2 million, a new record. Total employment, including farm and self employment, averaged 141.7 million workers in 2005, an increase of nearly 4.8 million from 2001.[1]

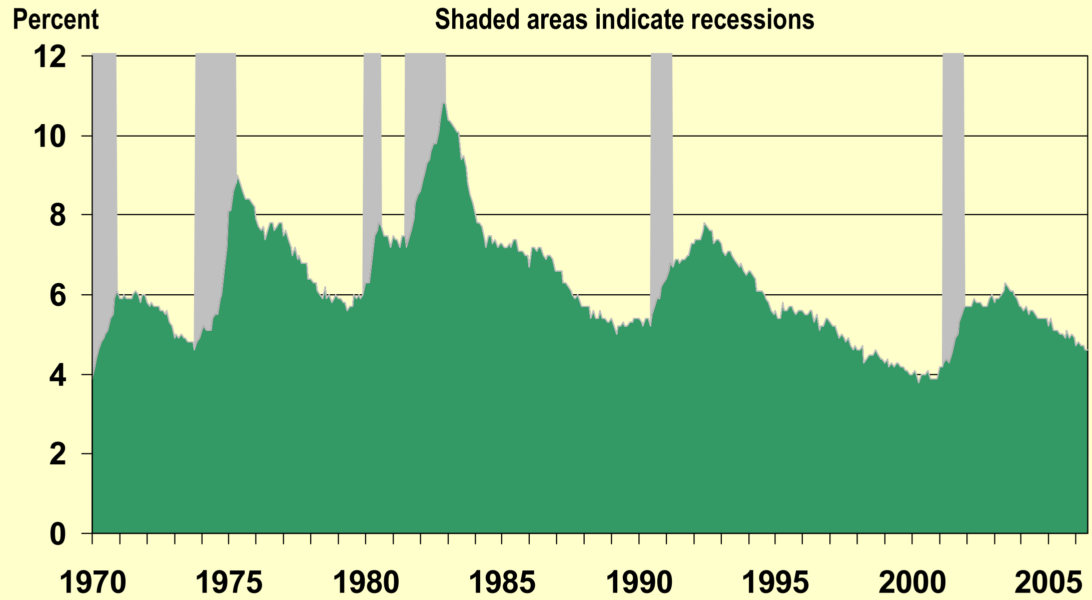
Figure 1-2. Payroll Jobs Have Surpassed the Pre-Recession Peak



SOURCE: Bureau of Labor Statistics, Current Employment Statistics program.

- In February 2001, just before the onset of the 2001 recession, payroll employment peaked at nearly 132.6 million. In the recession aftermath, payroll employment declined to a low of 129.8 million in August 2003.
- In terms of the proportion of payroll jobs lost, the 2001 recession was more severe than the immediately previous (1990) recession, which recorded a 1.5 percent decline in payroll employment, but less severe than the 1981 recession, which recorded a 3.1 percent decrease in payroll employment.[2]
- Job market recovery began after the low-point of August 2003 and has continued without interruption for 34 months through June 2006. In the last four months of 2003, job gains totaled 501,000, or 125,000 per month, on average.

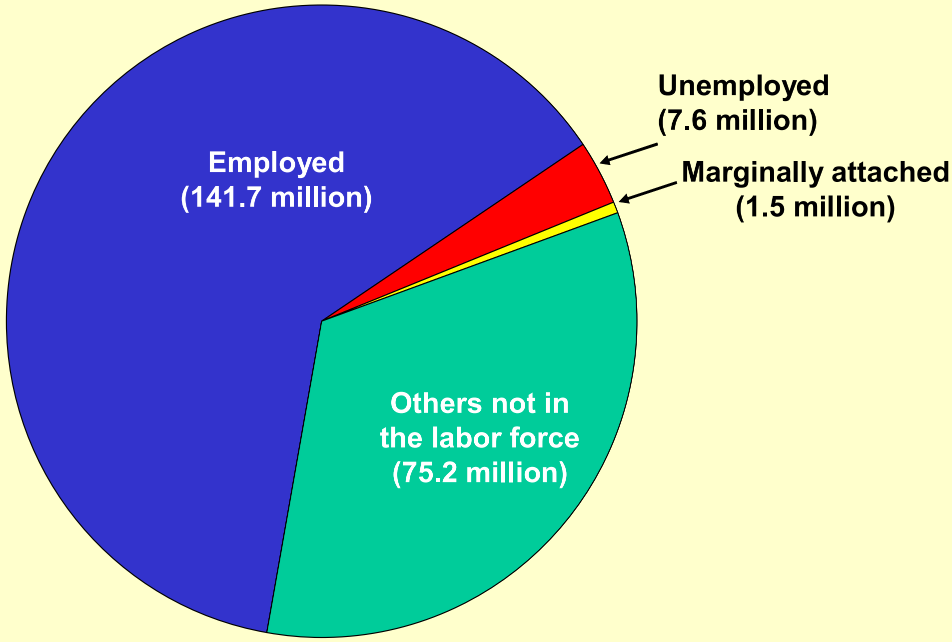
Figure 1-3. The Unemployment Rate Has Declined to Near-Record Lows



SOURCE: Bureau of Labor Statistics, Current Population Survey.

- At 4.6 percent in June 2006, the national unemployment rate was at its lowest level in nearly five years.
- In 2005, on average, 7.6 million persons were unemployed, and by June 2006 the number had declined to less than 7.0 million. These levels represent a significant decline from the 9.2 million unemployed at the post-recession peak in 2003.
- In 2005, the median duration of unemployment averaged 8.9 weeks for the year. On a monthly basis, the median duration of unemployment generally declined in 2005 from 9.3 weeks in January to 8.5 weeks in December.
- The post-recession high for median duration of unemployment was 11.5 weeks in June 2003. Since the median duration series was first reported in 1967, the average has been 7.1 weeks.

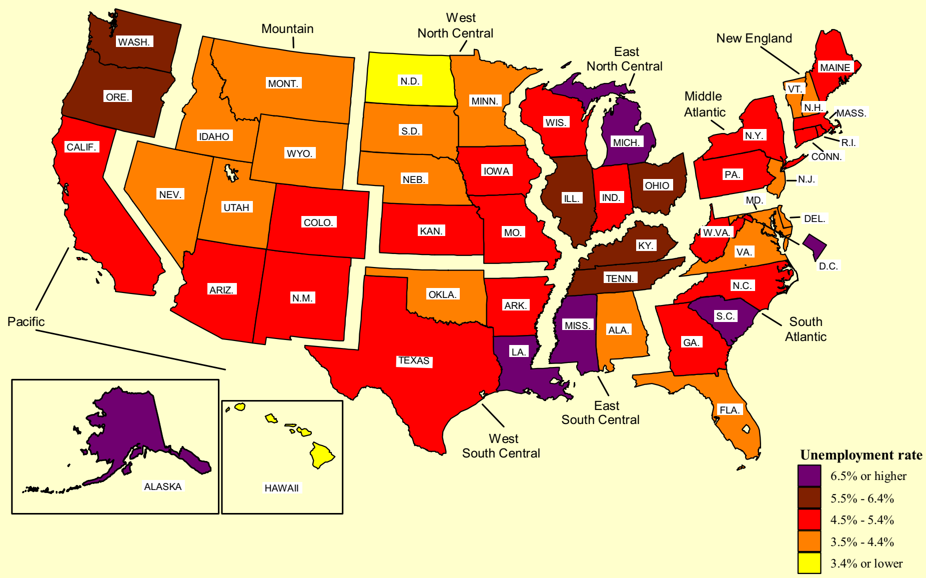
Figure 1-4. More Than Half of the Population 16 Years of Age and Over Worked in 2005



SOURCE: Bureau of Labor Statistics, Current Population Survey.

- In 2005, 141.7 million persons, comprising 62.7 percent of the total 226.1 million noninstitutional civilian population ages 16 and older, were employed. The 7.6 million unemployed comprised 3.4 percent. Employed and unemployed combined comprise the labor force.
- The 1.5 million persons "marginally attached" to the labor force comprised 0.7 percent of the civilian noninstitutional population ages 16 and older. The other 75.2 million persons not in the labor force comprised 33.3 percent of the civilian noninstitutional population ages 16 and older. The 75.2 million individuals not in the labor force included persons who cited reasons such as retirement, disability, and school attendance for being outside the labor force.

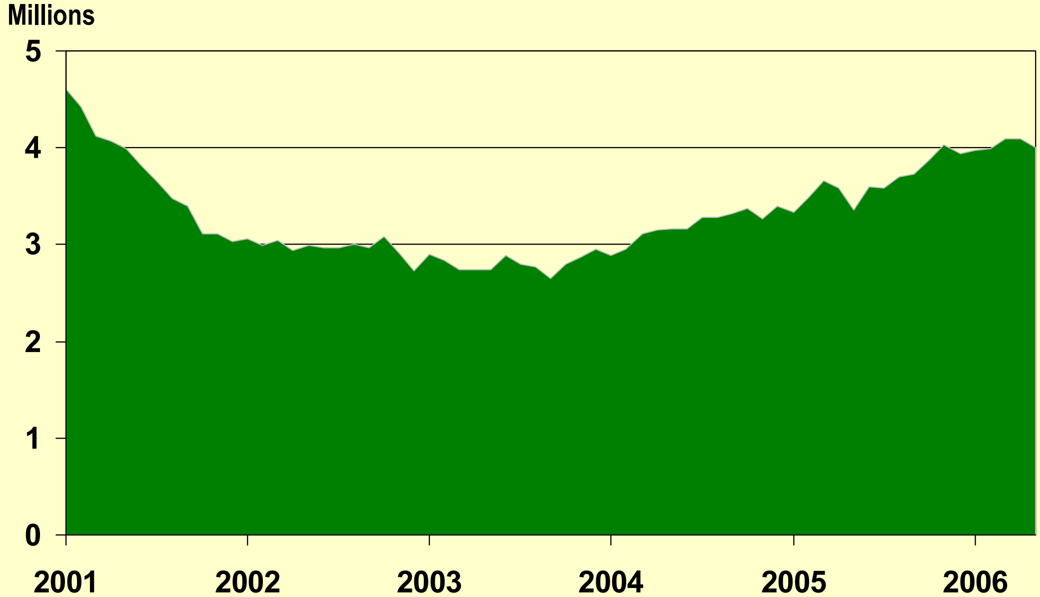
Figure 1-5. In 2005, Unemployment Rates Were Lowest in the South Atlantic States and Highest in the East North Central States



NOTE: Data are 2005 annual averages.
SOURCE: Bureau of Labor Statistics, Local Areas Unemployment Statistics program.

- In 2005, Hawaii reported the lowest unemployment rate among the states (2.8 percent). North Dakota had the next lowest rate (3.4 percent). closely followed by Vermont and Virginia (3.5 percent each).
- The highest rates were recorded in Mississippi and Louisiana (7.9 and 7.1 percent, respectively), reflecting the impact of the Gulf Coast hurricanes.
- The largest unemployment rate declines from 2004 to 2005 occurred in Alabama and Oregon (-1.2 percentage points each).

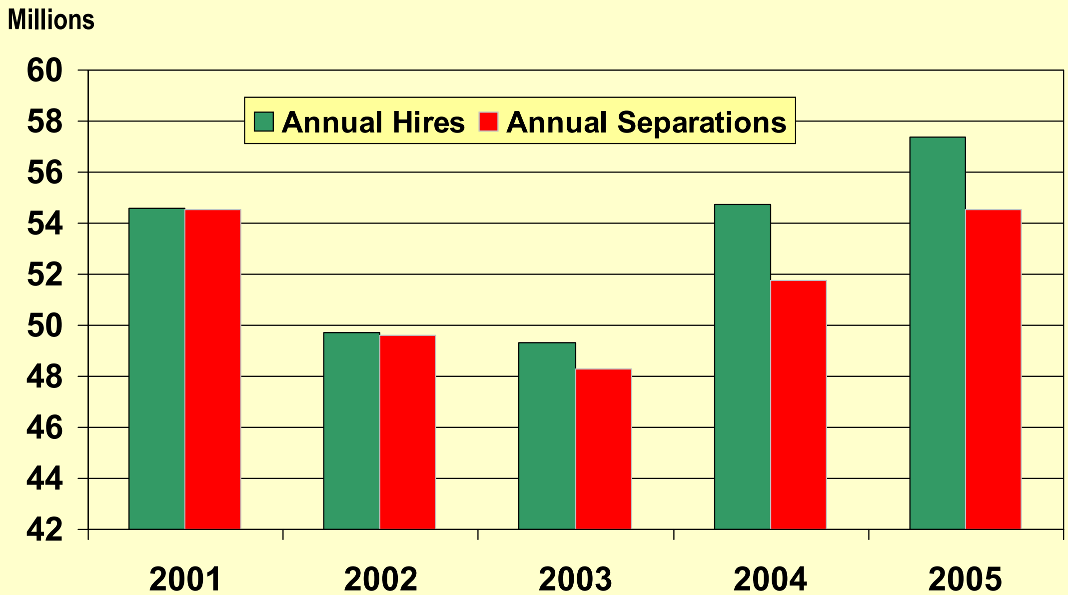
Figure 1-6. Job Openings Have Increased by Over One Million Since 2003



SOURCE: Bureau of Labor Statistics, Job Openings and Labor Turnover Survey.

- As the unemployment rate has fallen over the past two years, the number of unfilled job openings has steadily risen, reaching 4.0 million unfilled job openings at the end of May 2006. This was an increase of 1.3 million from the post-recession low of 2.7 million at the end of September 2003 and an increase of 500,000 from April 2005.

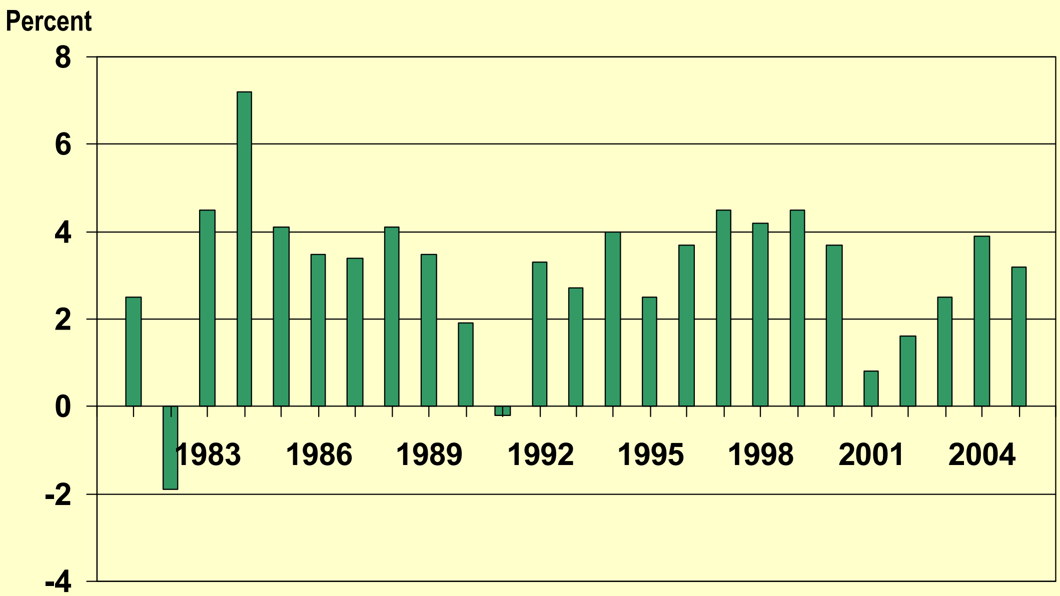
Figure 1-7. Turnover Shows Labor Market Dynamics



SOURCE: Bureau of Labor Statistics, Job Openings and Labor Turnover Survey.

- In 2005, employers made 57.4 million hires to fill vacancies or newly created jobs.[3] On average about 3.6 percent of jobs were filled or re-filled each month. In parallel, over the course of 2005, separations totaled 54.5 million.
- Separations included 30.9 million voluntary quits by employees, 19.9 million layoffs or discharges, and 3.7 million other separations, including those because of retirement, disability and death. It is likely that many of the voluntary quits involved job changes from one employer to another, but the exact number is unknown.

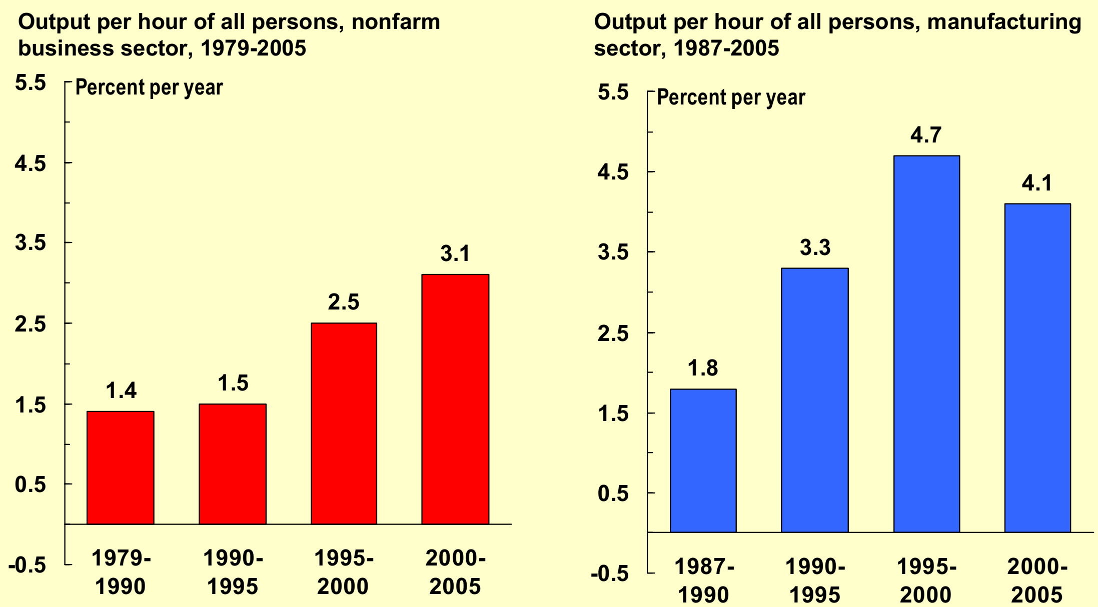
Figure 1-8. Annual Average Growth of Real Gross Domestic Product (GDP), 1981 - 2005



SOURCE: Bureau of Economic Analysis.

- The strength of the labor market is a reflection of the strong growth of real (after inflation adjustment) gross domestic product (GDP) in recent years. In 2005, real GDP reached nearly $12.5 trillion.[4] Since 1980, real GDP has more than doubled.
- On a per capita basis, GDP in 2005 was $42,090. This was 3.4 times the per capita real GDP of $12,567 in 1948 (2005 dollars), and 1.7 times the per capita real GDP in 1980.
- Real GDP growth (Figure 1-8) averaged 3.2 percent in 2005.[5] This followed a 3.9 percent growth rate in 2004 and a 2.5 percent growth rate in 2003. Including the 2001 recession year, real GDP growth over the past five years averaged 2.4 percent per year, comparable to the 2.5 percent average over the 1991-1995 recession and recovery period. Since 1948, annual real GDP growth has averaged 3.4 percent.

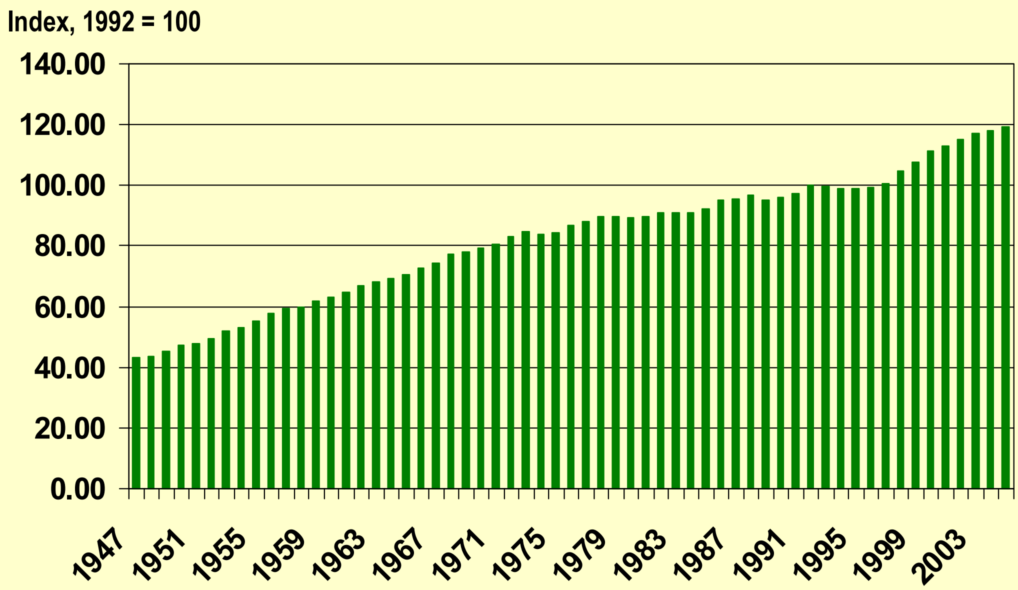
Figure 1-9. Labor Productivity Has Accelerated Since 1995, Led by Gains in Manufacturing



SOURCE: Bureau of Labor Statistics, Major Sector Productivity and Costs program.

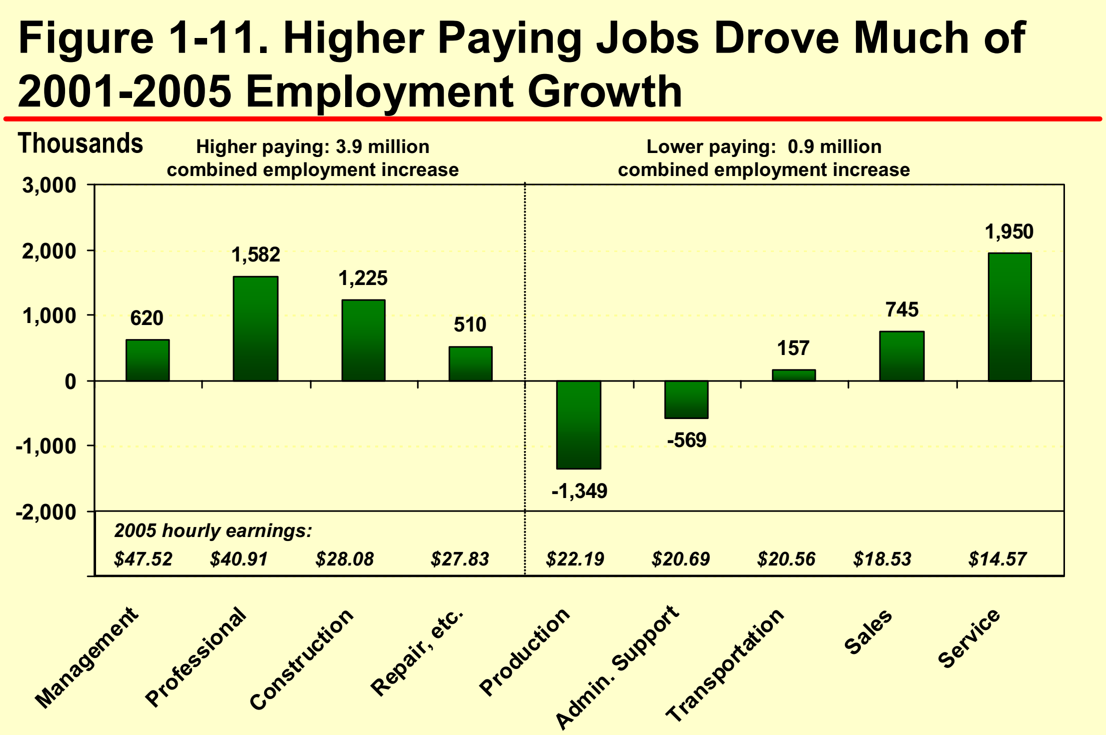
- Underlying recent strong GDP growth has been a notable increase in labor productivity. Growth of labor productivity in the nonfarm business sector averaged 3.1 percent per year over the 2000-2005 period, more than twice the 1979-1990 and 1990-1995 averages. Acceleration of productivity growth in the nonfarm business sector began in the late 1990s as the annual average growth rate jumped to 2.5 percent.
- Growth in manufacturing productivity also has accelerated. Over the 2000-2005 period, output per hour grew at an average annual rate of 4.1 percent. This was a notable gain over the 1987-1990 average of 1.8 percent annual growth.

Figure 1-10. Real Hourly Compensation Index, Nonfarm Business Sector, 1947 – 2005



SOURCE: Bureau of Labor Statistics, Major Sector Productivity and Costs program.

- Increasing real output and productivity have yielded real gains in compensation for employees. Compensation includes both wages and the cost of benefits such as health insurance, retirement plan contributions, paid leave, and other benefits. The recent real compensation growth experience appears similar to the 1947-1970 trend and stronger than the trend of 1970 to 1995.
- In the late 1990s, the trend of real hourly compensation increased notably, posting gains of 4.5 percent in 1998, 2.6 percent in 1999, and 3.7 percent in 2000. Over the most recent five years (2001-2005) the growth of real hourly compensation continued at a relatively robust rate of 1.4 percent per year, compared to the 1977-1997 average annual growth of 0.7 percent and to the 0.6 percent annual average rate for the comparable business cycle years of 1991-1995.
- In 2005, the average level of real hourly compensation in the nonfarm business sector was 7.0 percent higher than in 2000.



NOTE: Across all occupations, average earnings in 2005 were $26.06 per hour.
SOURCE: Office of Assistant Secretary for Policy analysis of Bureau of Labor Statistics, National Compensation Survey and Current Population Survey data.

- Over the past five years, job growth was greater among relatively well compensated occupations: management, business and finance; professional and related; construction and extraction occupations; and repair, maintenance and installation occupations. Each of these four occupational groups paid above the average compensation of $26.06 per hour in 2005.[6] Between 2001 and 2005, they accounted for 3.9 million net additional jobs.[7]
- The five lower-compensation occupations together accounted for 934,000 net additional jobs. Two of the latter occupational categories had net losses of jobs over the period: production occupations (-1.3 million) and administrative support occupations (-569,000).[8] For the lower-compensation occupations, employment losses in production occupations and in administrative support occupations offset gains in transportation, sales, and service occupations.